

April 17, 2013

**TO:** The Honorable Diane Black  
The Honorable Danny K. Davis

**FROM:** Mary Kusler, Director of Government Relations

**RE:** Comments for the Education and Family Benefits Tax Working Group

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**Guiding Principles and Important Education Tax Provisions  
For the Education and Family Benefits Tax Working Group**

The National Education Association (NEA) appreciates the opportunity to submit our thoughts on tax reform as it relates to the Committee on Ways and Means Education and Family Benefits Tax Work Group.

NEA, the nation's largest professional employee organization, is committed to advancing the cause of public education. NEA's 3 million members work at every level of education – from pre-school to university graduate programs. NEA has affiliate organizations in every state and in more than 14,000 communities across the United States. Our comments are written to provide guidelines on supporting education and families as consideration is given to overhauling the federal tax code.

Education is widely seen as the single most important factor determining a nation's economic future. Unfortunately, the United States spends less on education as a percentage of GDP than the OECD average which has a dramatic impact on our country's ability to prepare our children for the demands of the modern economy. **(Exhibit A)**

Directly related to education funding are the resources dedicated to family benefits – without these benefits families simply aren't able to provide the environment necessary for students to excel in their schools. Currently the United States invests less as a share of GDP than other OECD nations except Mexico and South Korea. **(Exhibit B)**

Consequently, it is clear that if our nation is to have a prosperous and growing economy and a fair and just society, the funding for both education and for family benefits needs to be increased to levels that more closely reflect their value to the economy and to our society. In addition, since the funding needs for these critical services are likely to grow over time, it is especially important that their on-going funding sources are not only adequate to meet current needs but can meet future needs as well.

Federal funding of education and of most family benefit services, are supported from the general fund. That general fund, in turn, gets its revenues primarily from federal individual income taxes and corporate income taxes, and to a much lesser extent from miscellaneous taxes, excise taxes and customs duties. Payroll taxes,

mainly the Social Security tax and Medicare tax, are dedicated to those separate budgetary activities. (See **Exhibit C**)

The criteria for evaluating proposals to reform federal taxes supporting these two vital individual governmental functions is essentially the same as criteria that should be used in evaluating the overall federal tax system, but with somewhat more emphasis on long-term sustainability and revenue growth elasticity:

- 1) Recognize the need for additional revenue. Federal tax revenues are currently at a historic low due in large part to tax cuts and tax benefits targeted to high income taxpayers. Meanwhile, government spending at all levels has been cut dramatically, leaving many vital public services, such as education and the nation's infrastructure, drastically underfunded. This underfunding will inevitably lead to a decrease in economic competitiveness and lower standards of living for future generations. Tax reform must be used to raise new revenue if new significant revenue has not been raised beforehand as part of deficit reduction.<sup>1</sup>
- 2) Broaden the base and increase fairness. For taxes to be sustainable over the long-term, they must be broad-based in order to keep rates reasonably low and avoid providing tax-related incentives to shift activities from one sector of the economy to another. They must also be deemed by most taxpayers to be fair so as not to generate resentment and resistance. They should be as simple as is practicable to aid in compliance. And they should be as transparent as possible to assure taxpayers and the broader public that the tax system is fair and effective.
- 3) Close loopholes and reduce unnecessary tax expenditures in a prudent fashion. While some tax expenditures are beneficial to the economy and necessary to ensure growth and fairness, there are a host of tax expenditures that are simply loopholes that need to be closed. However, it is difficult for analysts to estimate with precision the change in the tax base in response to the closing of a specific tax expenditure, and thus the exact revenue that can be gained from closing a given tax expenditure is typically very uncertain. Planning future budgets or proposing tax rate cuts based on expected revenues from tax expenditure closings is risky and could easily end up producing a large revenue gap.
- 4) Ensure that tax reform results in a structure that is both progressive and elastic. Individuals at the upper-end of the income scale have been the overwhelming beneficiaries of the nation's economic growth over the last several years while earnings of middle- and lower- income workers have stagnated. Making the individual income tax structure more progressive would make the system fairer by recognizing this rising disparity in ability-to-pay, and would at the same time make the system more growth-oriented by increasing the reliance on the part of the tax base that has grown, and continues to grow, most rapidly.
- 5) Avoid consumption and excise taxes as a source of revenue. Broad-based consumption taxes can be regressive and inelastic with regard to year-to-year revenue growth. Without special relief provisions, these types of taxes shift the tax obligation downward to middle- and lower- income households and often their resulting revenue stream does not grow as fast as would a progressive income tax. Excise taxes are typically even more regressive than general consumption taxes and their revenue tends to grow far more slowly. While excise tax increases can be popular, they can also be poor funding sources because behavioral changes to the underlying activity of the excise tax can result in a declining source of revenue.
- 6) State property taxes should not be affected. Education is largely funded by the states, most of whom use property taxes as the base for their revenue. Provisions in tax reform that would diminish or reduce the federal tax benefits for paying property taxes or the value of real estate should be considered carefully. Any small reduction in property taxes would have a devastating effect on our schools.

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<sup>1</sup> <http://atlanticlive.theatlantic.com/summit/ImmeltTrans.pdf>, pg 7,8

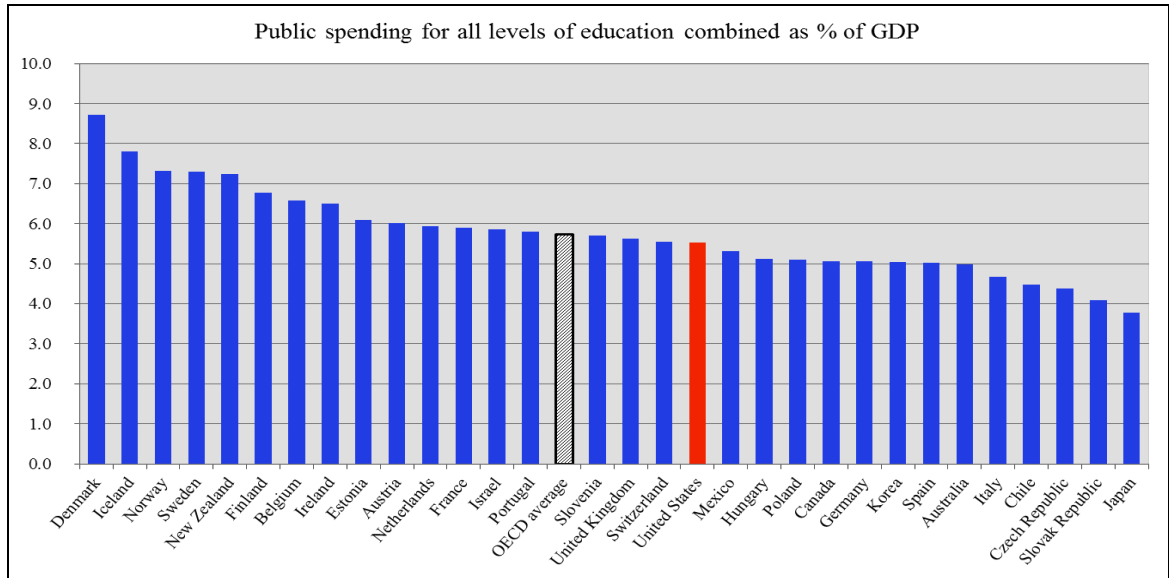
### **Education Specific Tax Provisions**

Expand and preserve the educator expense deduction. Currently, the IRS allows educators to deduct up to \$250 of any unreimbursed expenses incurred for books, supplies, computer equipment (including related software and services), other equipment and supplementary materials that are used in the classroom. A survey by The National School Supply and Equipment Association (NSSEA) found that the teachers in their survey reported spending a total of \$398 on school supplies and an additional \$538 on instructional materials for a total expenditure of \$936 for their classrooms. This deduction is currently one of the “Extenders” and is scheduled to expire once again at the end of this year. It should be made permanent and increased to bring it more in line with the reality teacher’s face. We strongly support the legislation introduced by Representative Reichert and Representative Berkley last Congress, H.R. 1738, the Teacher Tax Relief Act that makes the deduction permanent and doubles the amount to \$500.

Preserve funding for school construction and renovation. It is imperative that our cities and states are able to finance school construction and renovation. Started in 1997, Qualified Zone Academy Bonds (QZABs) have become one of the central ways that districts are able to pay for needed renovations. We strongly support making this program permanent and to increase the annual allocation. Unfortunately, these bonds cannot be used for new school construction – a need that is not being met in most states. We strongly support Congress bringing back the Qualified School Construction Bond program or create another means of funding the construction of new schools.

## EXHIBITS

Exhibit A



Source: OECD Education at a Glance 2012.

Exhibit B

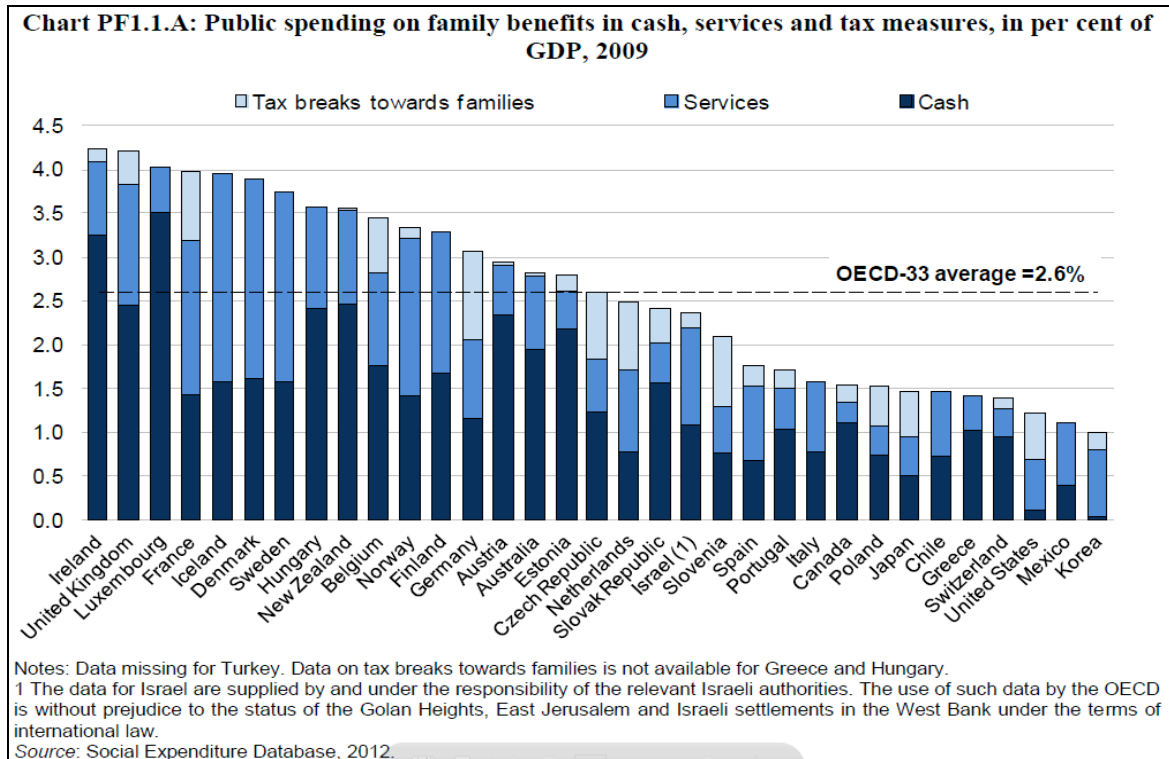


Exhibit C

